Advancing equity in climate investments with catalytic capital

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Advancing equity in climate investments with catalytic capital

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Advancing equity in climate investments with catalytic capital

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4 April 2023

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Executive summary

As Prime Coalition nears a decade of investment activity, it is a critical moment in time for the organization to reflect on its unique position in the catalytic capital climate investing space, assess its impact to date and re-commit to a bold ambition to contribute to a sustainable and inclusive future.

Thoughtful catalytic capital deployment will be key in mitigating emissions and facilitating adaptation to climate change. However, it also has a critical role to play in addressing the disparate burdens caused by climate change on vulnerable communities and considering opportunities to reduce social disparities. At a unique moment in time in which climate action is more critical than ever and where an increasing number of players are allocating funds to support the climate transition, catalytic capital funds deploying resources toward climate solutions have an opportunity to wrestle with issues of climate justice and equity more comprehensively as they implement their impact mandate.

For Prime Coalition, an optimal strategy balances people and planet and goes beyond solely considering GHG emissions reductions to incorporate equity considerations. Only with this dual focus and mandate will the transition toward a sustainable future bring about more inclusive and just societies. This research analysis puts forth four key interventions that Prime Coalition can undertake to better embed an equity lens in its catalytic capital deployment process. These are:

1. Update Prime Coalition’s Mission to fully commit to both people and planet.
2. Reimagine the diligence process and expand evaluation considerations.
3. Adopt a governance framework for portfolio companies.
4. Continue Prime Coalition’s contribution to impact measurement to advance the field.

The recommendations made in this report are the outcome of the following analyses. First, the report offers an examination of the catalytic capital climate investing space in the United States and seeks to understand its intersection with and approach to equity. It includes an examination of trends and common misconceptions that emerge as both barriers and opportunities to drive progress. Following, the report then provides an examination and assessment of how to think about advancing equity through catalytic capital investments, introducing an “equity in” and “equity out” framework and examining potential areas of intervention along the different stages within the investment process. Lastly, the report then explores a set of initiatives across three levels of intervention, mainly, the company level, the ecosystem level and the regulatory level, analyzes the potential interventions against a set of criteria and makes a set of recommendations for Prime Coalition to adopt moving forward.

Overall, this report hopes to examine a rapidly emerging and critical field within climate investing for catalytic capital and provide a tactical set of recommendations to ensure that capital allocation decisions in this space can contribute to building a more inclusive and sustainable society, limit the potential for harm to systematically marginalized communities and address past inequities.
Introduction

The world faces a climate disaster and an associated humanitarian emergency of unprecedented proportions. In response, trillions of dollars will be unlocked to mitigate and adapt to this unprecedented challenge, creating a once in a generation opportunity to allocate capital to the highest impact solutions that can transition our economies to a cleaner, more sustainable, and more inclusive future.

Catalytic capital has a critical role to play in this transition given its disproportionate ability to be bold, impact-focused, additional, and centered on building a more equitable and sustainable future. Prime Coalition, a first mover and leader in the catalytic capital climate space is strongly positioned to lead this vision and provide an innovative approach and model for others to follow. However, challenges remain for Prime Coalition and the catalytic capital climate field as a whole to better center around both people and planet. As such, the time is ripe for players to evaluate their impact to date and recommit to backing solutions that can support climate mitigation and adaptation efforts while also incorporating equity and justice considerations.

However, as our society comes to terms with the unequal and disproportionate negative impacts of climate change on marginalized communities (see box 1), interventions focused solely on GHG emissions abatement efforts may fail to build a more sustainable, inclusive, and prosperous society. In fact, they risk replicating and furthering past inequities. In addressing this adaptive challenge, more needs to be done to ensure that the vast amounts of capital deployed do not replicate the current inequities present in our economic systems.

Environmental justice issues are global and are particularly acute in developing nations that have experienced the least benefits from industrialization and are the most at risk of climate disasters. But environmental injustices are equally present in a United States domestic context. According to the EPA, the most severe harms of climate change will fall on underserved communities, stressing the “urgency for equitable action on climate change”. Among many other examples, Black and African American communities in the United States face disproportionate adverse health effects tied to pollution and heat rise, Hispanic and Latino communities are at risk of job displacement given the high participation rates in industries such as construction and agriculture that are most vulnerable to extreme weather effects, and BIPOC communities have been systematically excluded in capital allocation decisions and wealth creation opportunities.

As a result, it has become increasingly necessary to ensure climate investments truly consider people and planet and incorporate an equity lens in their evaluation process to ensure the trillions of dollars invested do not replicate the mistakes of the past and support a transition toward a more inclusive and equitable economic system for all.

Against this backdrop, catalytic capital funds deploying resources toward climate solutions have a unique opportunity to wrestle with issues of climate justice and equity more comprehensively as they implement their impact mandate. While impact in the form of GHG emissions abatement is now an established metric guiding the disbursement of catalytic capital, an expanded set of parameters directly tied to equity is needed to ensure the transition is just.

To rectify the current catastrophic climate direction, a more holistic approach is required for catalytic capital players like Prime Coalition to live out their impact-first mission. To achieve this goal, it is critical to assess how to best embed an equity lens in the investment process, to understand where the greatest barriers and opportunities lie and to develop a clear framework for capital allocators, such as Prime Coalition, who aim to incorporate this goal in their investments. This research effort sets out to examine these questions within the catalytic capital climate investing space in a U.S. context and develop an understanding of the challenges and opportunities that are present to meet this goal and take advantage of this unique moment in time to reimagine our economies and social structures.

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Box 2 – A unique moment in time for climate funding

While current funding still represents a small fraction of what is required, the share of funds deployed toward the transition is rapidly rising.

At a high level, climate focused investments remain a small share of the pie. For example, only 3.5% of global bonds issued are classified as “green bonds”, green infrastructure makes up less than 1% of institutional investors’ portfolio and of the 154 trillion of institutional investment capital, only 0.5% is devoted to impact investing.¹

However, encouragingly, players are stepping up. 2022 represented the highest deployment of private capital into the climate space ever. Global investments in energy transition technologies reached a record high if USD 1.3 trillion in 2022.² Similarly, in the past couple of years, governments around the world have vastly unlocked funding to this end, including the USD400 billion in federal funding to clean energy in Inflation Reductions Act in the US³ and roughly EUR 270 billion of the EU’s Recovery and Resiliency Facility earmarked for the green transition.⁴ In the US, the IRA funding allocates USD 20 billion in grants to nonprofits that collaborate with local financial institutions (e.g., green banks) and bring clean energy to communities left behind, providing a unique opportunity for catalytic capital.⁵

Sources:

Trends and misconceptions in catalytic capital climate investing and its approach to equity

This section provides an examination of the catalytic capital climate investing space in the US and seeks to understand its intersection with and approach to equity. To this end, it first outlines the definitions used in this research effort and an overview of the climate investing field.

Following, this section includes an examination of trends and common misconceptions that emerge as both barriers and opportunities to drive progress. The goal of this section is to provide the foundations to discuss concrete initiatives that can be adopted by Prime Coalition to realize its objectives in incorporating an equity lens into its approach to climate investing.

1.1. Background on catalytic capital in climate investing in the US

The impact investing field has grown in prominence in recent years. Within it, catalytic capital’s role and importance has also increased. Specifically, the impact investing sector is estimated to range from USD 715 billion to USD 2.3 trillion, with impact funds increasing by 12%, in 2022. Moreover, the field is increasingly attracting new players, especially in the climate space, where catalytic capital is seen as a critical lever to address the “valley of death” so endogenous to climate start-ups. Together, these positive tailwinds stress the growing importance of this field as being able to support the emergence of new solutions in the climate space through an impact-first lens.

Catalytic capital has garnered increased attention within the impact field. The share of funds denoted as catalytic capital has grown at an annual growth rate of 26% over the last two decades. As this form of capital grows, it is important to understand its unique characteristics and how it relates to other capital structures within the impact investing field, such as blended finance.

Blended finance is a structuring approach that facilitates the co-investment of different types of institutions and facilitates them meeting their own goals as it pertains to financial returns and social impact. The relationship between catalytic capital and blended finance is a close one as all blended finance approaches use catalytic capital, but not all uses of catalytic capital can be categorized as blended finance. This is particularly important as the largest amounts of funding in climate have come from public institutions such as development finance institutions and government entities, the traditional players in blended finance structures.

Further, catalytic capital deployed by private players for climate adaptation and mitigation solutions has played an increasingly important role in recent years. While this still represents a very small share of the annual investments required to meet net-zero targets, catalytic capital’s flexibility, long-term view, de-risking approach and additionally emphasis has a disproportionate role to play given its ability to

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crowd in traditional investors in later stages of the capital cycle.

Similarly, the notion of incorporating and considering equity in investment decisions, and particularly as they relate to climate change, is also rising in prominence. Extensive research highlights the disproportionate effects that a changing climate will have on the most vulnerable communities, including women, people of color, indigenous communities, migrants, lower income communities and developing countries. Climate change will exacerbate inequities and accelerate injustices. As such, as capital allocators make investment decisions for impact, it is critical that they bring a comprehensive and thorough understanding of equity as both inputs and outcomes of their investments.

Box 2 – Key definitions

**Catalytic capital:** is “capital that accepts disproportionate risk and/or concessionary return to generate positive impact and enable third-party investment that otherwise would not be possible”

**Blended finance:** is the “use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.”

**Equity:** is the “just and fair inclusion into a society in which all can participate, prosper, and reach their full potential. Unlocking the promise of the nation by unleashing the promise in us all.”

**Climate equity:** is the “goal of recognizing and addressing the unequal burdens made worse by climate change, while ensuring that all people share the benefits of climate protection efforts. Achieving equity means that all people—regardless of their race, color, gender, age, sexuality, national origin, ability, or income—live in safe, healthy, fair communities.”

Sources:


1.2. Key trends and common misperceptions

As funds pour into the catalytic capital climate space, new opportunities for impact arise. The ability to expand to new asset classes, support under-funded founders and expand funds create exciting areas of exploration and development. However, there is also potential for further exacerbation of inequities and potential for harm to communities that are disproportionately impacted by climate change and that have been traditionally excluded from decision-making processes.

There is increasingly a consensus for the need to properly define equity and incorporate it in the climate investing space, across asset classes and

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players. However, as an emerging field, extensive work remains for broader adoption and implementation across investors. Further, there are several key trends and common and pervasive misconceptions in the field that prevent progress. The following section explores these based on what has emerged through the research methodology (see appendix for details).

**Key trends**

**Trend #1: At a large scale, climate investing has failed to embed an equity lens.**

While increasing amounts of funding are being allocated toward climate, a disproportionately small portion of these funds are identified as incorporating justice or equity-oriented efforts. For example, in 2019 only USD 60 million of the USD 1.6 billion allocated to climate mitigation efforts globally were to support justice and equity-oriented initiatives, and within a US context, only 1.3% of funding reached BIPOC-led environmental justice groups from the largest environmental funders. This is particularly worrisome in a catalytic capital context whereby the largest funders tend to be philanthropic institutions with a clearly defined justice and equity mission. The gap between stated mission and allocated dollars for these players remains large, and new tools are required to evaluate capital allocation decisions and better implement stated missions.

This reality exists against a backdrop of disproportionate climate impacts being faced by marginalized communities due to environmental factors. For example, in the US, 71% of black families live in counties violating federal air pollution standards vs. 58% of white families and these communities have also disproportionately been located near toxic waste facilities, fracking plants and chemical processing plants. As a result, Black and Latinx Americans experience the highest degree of adverse health effect tied to pollution. Moreover, low-income black and Latinx families have a higher risk of living in areas impacted by climate disasters and have lower access to affordable insurance to mitigate this risk. As new projects are funded and innovative technologies are seeded and scaled, careful consideration must be given to how value is created in the communities in which these businesses operate and who benefits from that value.

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We haven’t cracked the code on how to think about equity in our climate investments. We are starting to discuss racial equity in terms of diversity targets and representation, but we are still early stage and in a process of continuous improvement.

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**Trend #2: The field has traditionally focused on supporting false solutions that could ultimately reinforce existing inequities and produce harm to disadvantaged communities.**

Despite its best intentions, philanthropic giving and catalytic capital’s climate investments to date have disproportionately backed technocratic climate solutions. These solutions have often failed to consider community wellbeing, which ultimately could result in the creation of harm to the communities they intend to serve. Examples include investments in biofuels to reduce the reliance on traditional fossil fuels but that can ultimately increase deforestation in vulnerable

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areas or carbon offsets which, in addition to having a limited impact on emissions abatement, can also perpetuate pollution in marginalized communities. If these traditional approaches are upheld as larger and larger amounts of capital get deployed toward climate adaptation and mitigation, they risk furthering the exploitation of natural resources through extractive approaches to land and people use, the exclusion of vital community voices and novel ownership structures, and the prioritization of established large-scale players at the cost of broader inclusion of new players in wealth creation opportunities.  

Through its current approach to investment strategies, catalytic capital is losing out on its uniquely privileged capital position to take on longer-time horizons, de-risk potentially viable solutions and provide concessionary capital to support traditionally overlooked and marginalized voices. Further, it is also overlooking its capacity to lead on impact-first interventions that center around communities and reimagine traditionally established power dynamics between asset owners, managers and the intended community-level beneficiaries.

Trend #3: The field still lacks a cohesive approach to considering equity in investment decisions and a widely adopted set of metrics and targets through which to evaluate this objective.

A growing set of efforts have emerged to quantify and assess equity for asset managers and owners investing in climate solutions. These include the GIIN IRIS+ framework (see Box 3), the Environmental Justice Screening and Mapping tool, PolicyLink’s Investor Blueprint for Racial and Economic Equity, the Racial equity Assessment that is Proactive and Practical tool from Blue Hub Capital, Racial Equity Impact Rating Tool and the Racial Wealth Gap Toolkit. These frameworks and tools are still in evolution, and adoption remains at an early stage. To respond to this challenge, players are also undertaking innovative approaches to drive progress, such as the Southern Reconstruction Fund’s “Metric Madness”, a competition launched in March 2023 to identify the most useful metric to track for racial equity and wealth-building in investment strategies.

Players also struggle to define what equity means within their investment context. Unlike other areas, the GIIN IRIS+ does not yet have one definition of “Equity” in their glossary. Similarly, most of the players interviewed stated significant March 28, 2023, https://impactalpha.com/chasing-the-holy-grail-of-a-universal-metric-for-racial-equity-and-wealth-building/.


challenges in coming up with a definition as they pursue their investments. While a specific definition may not be needed, lack of a common understanding or set of parameters that encompass equity considerations may limit the ability to define specific metrics in climate.

This measurement challenge is not limited to impact metrics tied to equity, as data indicates that impact funds struggle to define and track impact metrics in general. For example, while nearly 40% of VCs claim to seek social or environmental returns in addition to financial ones, these same VCs do not track impact components of their investments. More needs to be done as 80% of LPs express that measuring impact is important in their capital allocation decisions.20

Incorporating equity is critical, but it is not yet been communicated in the field in a way that feels digestible and implementable for the venture model. Contributing to sharing learnings and metrics is critical to advancing this effort. For example, what is a good metric to use to focus on community engagement?

Players also struggle to set reasonable targets across asset classes and investment themes. To date, most metrics are disclosure assessments tied to diversity (e.g., disclosure of capital deployed to diverse founders) rather than true performance targets. While disclosures are a meaningful first step, targets are required to drive the next set of efforts and truly measure progress over time.

Advancements on the targets front have been driven by the public and non-profit sectors. Since January 2021, the US Government via Executive Order 14008 established that at least “40% of the overall benefits of certain federal investments, including those involving clean energy, energy efficiency, clean transit, affordable housing, and pollution remediation, must flow to disadvantaged communities that are marginalized, underserved, and burdened by pollution”.21

On the philanthropic end, the Donors of Color launched the Climate Funders Justice Pledge calling on the top 40 climate funders to provide transparent reporting and increase funding to BIPOC-led groups to at least 30% in two years.22 Additionally, LPs increased lens on equity as part of their impact assessment stresses the importance for catalytic capital funds to incorporate this lens in their impact reporting and assessment to not miss out on access to continued capital sources moving forward.

Metrics and data are a key piece of advancing equity, as they create transparency and accountability. We need to disaggregate data and see where the challenges lie. For example, asset owners must understand sourcing, diligence, and manager selection decisions and how they relate to driving outcomes. Right now, players are starting to focus on diversity, which is the first step, but they cannot evaluate it without tracking it, and metrics are still a challenge for the industry.

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Trend #4: The great wealth transfer from boomers to their children represents the greatest generational wealth transfer in history and shifts investment priorities.

Estimates forecast that approximately USD 68 trillion will be transferred from boomers to their children in the coming decades. As millennials inherit and manage this wealth, the set of assets they invest in will also shift. Particularly, various studies have noted how younger generations are focused on climate change and social justice and seek to use their assets to drive positive social progress. For example, 95% of millennials care about deploying capital toward socially responsible causes.

Further, philanthropies are also set to benefit from this wealth transfer, as these philanthropic institutions are set to receive an increase of funds in the next two decades estimated at nearly USD 12 trillion.

Together, these factors are likely to increase the supply of resources available for impact-first catalytic capital investments and stress the need for the field to become better equipped to invest in climate with a keen eye on meeting the priorities and commitments of the new generation of asset owners.

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Box 3 – The GIIN IRIS+ Racial Equity theme

According to the GIIN, the IRIS+ theme serves as a “guide for investors to integrate racial equity awareness and action in their investment strategies, portfolio decisions and evaluation of returns.”

The draft theme, published in January 2023, incorporates three strategic goals of Justice, Risk and Power and a set of core metrics within each along the dimensions of the Impact Management Project. Select examples for each are provided below:

- **What is the goal**: objective of intervention, value of investment in communities of people historically marginalized due to race, importance of outcome to shareholder.
- **Who is affected**: target stakeholder demographic and socioeconomics.
- **How much change is happening**: percent of total AUM invested in communities.
- **What is the contribution**: strategies engaged to contribute (e.g., flexible capital,
- **What is the risk**: endurance risks, execution risk.
- **How is change happening**: racial equity advocacy strategy, racial equity audit complete, community engagement strategy, GHG emissions strategy, number of entrepreneurs in pipeline from groups historically marginalized due to race and/or ethnicity, Bias-reducing investment practices applied.

Common misconceptions

Misconception #1: The inflow of funds into catalytic capital investments remains low and comes from a limited number of players mostly tied to development institutions, foundations or non-profits.

Family offices and large corporations have not been the traditional players to support catalytic capital investment vehicles. However, this is now shifting as these traditionally market-rate focused players seek greater flexibility in their investment mandates to take on higher risks, lower returns and/or longer time horizons.

Thus, the field is experiencing a heightened interest among new audiences, an inflow of funds and a diversification of players deploying these funds that bring expertise in traditional markets and market-rate return approaches. This new set of players in the field will broaden the resources available to invest in catalytic and impact-first solutions. However, at the same time, this broader set of players means an even larger range in terms of players’ approach to and understanding of equity-centered approaches, ranging from equity-blind to nascent to equity-centered mandates.

Navigating this variance in adoption curves and priorities across asset owners and asset managers providing capital will be increasingly complex, especially for funds with a diverse set of LPs that can bring with them contradicting priorities and disclosure requirements. As a result, shared practices, common definitions through which to ground fund priorities and standardization of the range of options available will be essential for greater coherence and alignment of priorities and incentives across players.

Misconception #2: Pursuing impact is incompatible with returns and LPs still do not care about impact as it relates to diversity, equity and inclusion.

Traditional players have expressed resistance to impact strategies given their perceived tension with driving returns. However, with over a decade of data to evaluate impact funds, it has become increasingly apparent that this view is both limiting and unfounded. For example, KKR’s impact fund has led its other funds with a 32% internal rate of return. While impact first-funds may not seek to target the same IRR’s as traditional market-rate capital, the ability to create sustainable returns through impact strategies remains important to increase the capital available to the space and understand the potential synergistic value to returns that comes from incorporating an impact lens and addressing material risk factors.

Further, LPs are increasingly demanding an impact lens and evaluation in their investments, particularly as they relate to sustainability. Research suggests that a growing number of asset managers allocate funds based on DEI priorities.

A huge barrier is that a significant portion of “ICs” still perceive their fiduciary duty to be tied only to returns, even in the philanthropic space. Failing to incorporate an equity lens can negatively impact returns, especially for long-term horizon investors. Education is needed to better communicate this reality and expand the understanding of fiduciary duties.

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Further, LPs are increasingly demanding an impact lens and evaluation in their investments, particularly as they relate to sustainability. Research suggests that a growing number of asset managers allocate funds based on DEI priorities.

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25 Cortese, “Private Equity Giants Double down on the Low-Carbon Transition and Impact Investing.” Impact Alpha
For example, 43% of asset managers that responded to Diversity VC’s research on “The Equity Record” stated that they allocated funds to DEI focused investments. However, there is still ample room for improvement. While commitments to diversity, equity and inclusion have increased, the overall percentage of allocated funds toward this goal remains low. The same research by Diversity VC found that when examining total AUM allocated to this goal by the same set of previously surveyed respondents, funds allocated to DEI priorities represented less than 2% of total funds managed by survey respondents.


**Misconception #3: There are not enough diverse founders and fund managers and investing in these individuals is associated with higher risks and lower returns.**

The venture capital and private markets space more broadly has systematically excluded diverse fund managers and founders from accessing capital. Only 2.4% of capital went to companies solely founded by female founders and less than 1.5% of capital to black founders, a figure that has also fallen in 2022. Further, VC-backed startups are still disproportionately rub by “men (89.3%)”, who are “white (71.6%)”, and “based in Silicon Valley (35.3%) and Ivy League-educated (13.7%)”, with very little change in data in two years.

First, growing evidence suggests that there is no dearth of diverse founders. However, it is much harder for these founders to access funds if the General Partner (GP) does not have itself a diverse partner. Specifically, research underscores that DEI funds were “much more likely to have a woman-identifying or underrepresented manager GP”. Second, diverse founders and fund managers have been overlooked in terms of receiving funds, and when
they do receive funds, these tend to be associated with worse terms (e.g., higher fees, higher dilution rates, lower valuations, etc.). The prevailing view is that these founders and fund managers may be associated with higher risk of default, but there is little evidence to back this claim suggesting several different factors may be at play.

For example, research suggests that funds focused on diverse founders (i.e., “DEI funds”) tend to be overconcentrated in the pre-seed-series A categories. This not only means that fund rounds tend to be smaller (e.g., avg. round sizes for non-DEI funds average USD 21.4M vs. USD 10.8M for DEI funds), but that those rounds, and their associated companies tend to have higher risk of failure given their maturity stage.30

Moreover, over a decade of research provides evidence to support the case that diverse founding teams deliver better business outcomes (e.g., 30% higher MOIC upon exit vs. homogenous teams) and that diverse investing teams are correlated with higher investor returns (e.g., 20% higher net IRRs in global emerging markets for gender diverse teams) 31

Misconception #4: Investing in diverse fund managers and diverse founders is enough to advance equity.

The road to driving more inclusive outcomes in our economy and enabling a just transition must incorporate efforts that go beyond focusing on hiring, developing, and funding diverse investors and founders. A growing number of players are focused on increasing diversity in terms of gender and race across funds and investment pipelines, pursuing one leg within diversity, equity, inclusion and justice. While this is a critical step and a dire action given the unlevel playing field and vast disparity in access to diverse fund managers and diverse founders, greater ambition and deliberate action is needed to not replicate the same exclusionary outcomes suffered by marginalized communities in the past. A path to a more inclusive form of capitalism that utilizes the climate transition as a lever for positive change must consider factors beyond diversity.

We understand that outcomes in life in the US are determined in part by systemic barriers that can be tied to race and gender, among others. As investors, we have to think about how our capital is perpetuating those inequities or becoming a solution to counter them. By allocating money, we have a tool to be proactive and drive solutions.

Leading philanthropies and think tanks recognize this shift and have started to incorporate frameworks that go beyond diversity to assess the full spectrum of diversity, equity, inclusion and

We are seeing a wave of new female identifying and BIPOC entrepreneurs coming into the climate space with great ideas, experiencing significant struggles to access capital given track record requirements of traditional asset owners. This is where catalytic capital can make a huge dent by supporting these founders in their early-stage endeavors and helping them build a track record.

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justice (JEDI framework). For example, the Milken institute recognizes four pillars in their path to inclusive capitalism, which include “Pillar one: incorporate DEI into governance”, “Pillar two: source diverse talent”, “Pillar three: Underwrite equitably” and “Pillar four: commit to equitable monitoring and engagement”. Pillar three and four include elements such as considering new risks paradigms that forgo minimum track records, and provide fee breaks to diverse emerging managers. These interventions get to the core of going beyond simple representation to take a more holistic approach to incorporating more equitable processes.

Similarly, CapShift has developed a framework focused on racial equity that assesses funds along three dimensions, “diversity and inclusion”, “racial equity”, and “racial justice”, which fall along a continuum with the racial justice dimension being the one most embedded within communities and able to deliver the most transformative outcomes. Examples within each category include: Achieve Partners’ focus on identifying training needs for BIPOC candidates in their portfolio companies as an example of “Diversity and Inclusion”, SOAR’s special purpose vehicle to provide capital to CDFIs focused on serving BIPOC business owners as an example of “racial equity”, and Seed Commons’ approach to give local communities control of the capital and provide non-extractive capital where loans are only repaid based on revenue growth as an example of “racial justice”.

This categorization along a spectrum spanning technocratic solutions to ones that are transformative in nature and go beyond the status quo will be further explored in the following sections. Moreover, evidence in the field suggests that various players are already adopting this new set of priorities and recognizing the potential of going beyond technocratic solutions simply focused on diversity targets.

When we talk about climate justice, we think about it along different steps. First comes diversity, you need to get more diverse people in the door, but that is not enough. Then, you need inclusion, these same individuals must have important roles. Next comes equity, which requires that they have power and can address systemic barriers, and then you can start to think about justice and making the system fairer overall.

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SECTION 2: Embedding equity in the investment process – lessons from the field

Embedding equity in the investment process

This section provides an examination and assessment of how to think about advancing equity through catalytic capital investments, introducing an “equity in” and “equity out” framework.

Following, this section includes an examination of the different stages in the investment process, defined as the chain of decision points, to embed an equity lens, including sourcing, diligence, a sample standard investment process in the climate space. We ground the analysis on Prime Coalition’s existing objectives and structure and outline its existing approach and investment strategy. The goal of this section is to provide the foundations to discuss concrete initiatives that can be adopted by Prime Coalition to realize its objectives in incorporating an equity lens into its approach to climate investing.

2.1. Assessing equity in catalytic capital

2.1.a. Undertaking a holistic approach to incorporating equity considerations

Equity can come with varying interpretations and approaches for different players in the industry. Many have conceived of it as being confined to the outcomes or results achieved. However, this research effort is grounded in an understanding that achieving more inclusive and fairer outcomes must equally incorporate the process as it does the result. As described in Policy Link’s definition under Box 1, equity is about inclusion and participation. As such, it cannot be relegated simply to the outcomes achieved, but also must pay careful attention to the establishment of strong, comprehensive and deliberate processes to truly unlock the desired just and inclusive outcomes.

Given this view, this research effort references Elemental Excelerator’s framework through which to conceive of potential interventions and actions in the capital allocation processes, which is broken down into two broad categories denoted as “Equity in” or “Equity out” choices. To truly shift outcomes, power dynamics and address systemic sexist, racial and exclusionary

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To us, embedding an equity lens is not just about what we invest in, but how we invest. We are going deeper within the endowment on the “how”.

Climate and Environmental Justice Foundation
barriers, a careful examination of the inputs and processes is essential.

To this end, it is critical to first understand the existing pathways for equity in decision making for capital allocators, outline their components, explore key constraints and barriers as well as opportunities and provide recommendations on how to strengthen them for impact.

Exhibit 1: Equity in vs. Equity out framework.

Moreover, this research seeks to put forth a vision of equity that is centered in and incorporates learnings from the Just Transition framing of social progress. According to the Just Transition Research Collaborative, Just Transition approaches can be conceived across a spectrum of four disparate outcomes, including those that maintain the status quo, those that introduce managerial reform, those that pursue structural reform, or those that are truly transformative.

In detail, a status quo approach seeks to maintain existing capitalist principles, a managerial reform approach pursues greater equity and justice within existing systems without challenging hegemony, a structural reform approach seeks both distributive and procedural justice, and a transformative approach seeks an overhaul to the systems responsible for economic harm.

Overall, we will examine recommendations along a 2-scale spectrum of solutions leveraging the Just Transition Research Collaborative, CapShift and the Milken Institute’s framework outlined in the above sections. Interventions will range from technocratic to transformative (see Exhibit 2).

The recommendations section will explore options along this spectrum and examine the merits of each, weighing implementation challenges with an ambition to go beyond a traditional status quo view given catalytic capital’s ability to take on greater risks and push the notions of what transformative capital can do.

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Advancing equity in catalytic capital for climate impact

Exhibit 2: Spectrum of solutions.

We have been intentional about calling our portfolio a “climate equity” and not “climate justice” portfolio. We focus on how to embed equity in our processes as we believe this is the first essential step to get to systemic transformation, which is what we think about when we think about “climate justice”. We are still early stage, but we have been very intentional about calling it equity to focus on the process.

Foundation with climate equity portfolio

2.2. Barriers and opportunities along the investment process

Embedding an equity lens can have varying implications, especially as it relates to the different sets of decisions that capital allocators face in deploying their capital for climate solutions. It is useful to outline the different sets of decisions, understand their barriers, and develop an understanding of the sorts of decisions that are present at each stage with regards to “equity in” from a funder lens.

Section 2.2 examines the different set of decision-making steps along the capital allocation chain within “equity in” choices and takes a closer look at the barriers that exist within each of these key decisions.

2.2.a. Chain of activities within a capital allocator in the catalytic capital space

Capital allocators face several decisions along their activities when making capital deployment choices. Exhibit 3 provides an overview of the key ones considered for this research effort and includes descriptions and examples of what each may entail.

The process is broken down broadly into three components, mainly, the organization’s strategy, and the pre- and post-deal set of activities.

The organization strategy includes a definition of the stated mission, an identification of the potential LP base and their priorities and funding principles, and the structuring of the organization’s hiring and promotion incentives.

The pre-deal components include sourcing, selection, diligence, negotiations, legal agreements, and commitments, and tend to be the focus of the capital allocators efforts, with the highest emphasis and opportunity to drive equity in efforts, but also the highest barriers to overcome.

Lastly, the post-deal components include capital disbursements, portfolio work and exits. While monitoring and supervision may have been overlooked in the past, it is increasingly important, especially given that several players have large existing portfolios that will be held for 5-15 years.
Based on the areas that experience the most significant barriers but also the highest potential for change, this research effort will dive into six key steps along the chain of decisions. At the Organization level, these include the “Mission and strategy” and the “Incentives and evaluation” categories. At the pre-deal level, these include “Deal sourcing” and “Due Diligence”. At the Post-deal level, these include “Monitoring and supervision” and “exit”.

Following, we explore the key barriers for these six identified components within the scope of this research effort.

2.2.b. Key barriers to incorporating equity along the chain of decisions for fund allocators

Several barriers exist along the decision chain. To be successful and implementable, a comprehensive framework for “equity in” decisions will have to understand and address these barriers.

**Barriers in the organization strategy stage**

Equity considerations have risen in prominence in the wake of the George Floyd murder and the rise in prominence of environmental justice groups’ advocacy for the disproportionate adverse effects of climate change on already disadvantaged communities. Catalytic capital funds focused on climate such as Prime Coalition have begun to re-examine their mission, strategy and organizational practices. However, many have faced barriers in pursuing their revised focus:

- **Mission & Strategy**: many players experience tensions in their stated mission definition, which often is focused primarily on GHG abatement efforts. As a result, several struggle to evaluate what role equity should play and at what level of importance it should be placed in conjunction with this overarching mission. For example, should a potential concern for job destruction in the short-term red line an investment in a
technology that can deliver large-scale reductions in CO₂? Further, others struggle with identifying a definition of equity that can be applicable and relevant to their entire portfolio and scope of investment activities, especially as players may consider investing across asset classes and themes.

• Incentives & evaluations: incentive alignment is critical in driving outcomes, and several players have brought significant innovations with regards to how they think about both their recruiting, promotion and compensation. On recruiting, some players discuss difficulty in finding enough diverse talent to meet targets around diversity. Others express a desire to recruit for diversity of thought over specific diversity metrics tied to gender and race. Similarly, many players consider diversity in hiring practices, but many have yet to incorporate specific promotion targets tied to supporting and developing diverse talent. Lastly, several believe in the importance of tying impact metrics to compensation and carry disbursements, however, some are concerned with not introducing adverse incentives (e.g., where to allocate financial carry if impact metrics are not achieved, but financial ones are)

**Barriers in the pre-deal stage**

At the investment process stage, there are a range of barriers that span the set of decision points. We hone into the most critical ones within sourcing and performing due diligences on opportunities:

• **Sourcing**: barriers include a belief that there is a lack of diverse founders or fund managers in the ecosystem, a limited accessibility to the set of networks and ecosystems that connect diverse entrepreneurs to capital allocators, a lack of metrics and targets to assess the strength of the pipeline and understand whether there is a limited consideration of diversity, equity and inclusion at the sourcing stage or at later stages in the investment process. Some players also express a lack of resources and time to invest into expanding sourcing pipelines.

• **Due Diligence**: several barriers exist in the diligence phase. Players denounce tight timelines and limited resources to incorporate an additional lens to diligence with a potential to expand diligence timelines and with the potential to miss out on closing deals as a result of this extended process. Further, several also express a lack of alignment on what incorporating equity means at this stage, struggling to decide on a clear framework that can be applied across investment themes and can be comparable to existing metrics such as financial returns or GHG emissions abatement. Moreover, especially within catalytic capital focused on early-stage climate ventures, players struggle to assess the impact on early-stage companies whose scope of activities and business models are likely to evolve over time, and thus face evaluations that are largely vague and qualitative at best. Lastly, players struggle to categorize the level of priority that equity should have against other impact metrics such as emissions, especially if there is a tension that exists between the two metrics.

**Barriers in the post-deal stage**

Lastly, once deals are completed and companies are funded, there are an additional set of barriers when it comes to exit and monitoring and engagement strategies:

• **Monitoring and supervision**: many players are increasingly focused on portfolio work to address equity both for existing companies and for future companies whose mandate
may evolve over time. Barriers to doing this work include assessing the right level of involvement with portfolio companies that is additive, evaluating impact over time and placing that onus on portfolio companies that already struggle with dedicating resources to reporting, evaluating effective governance models to introduce and guide engagement and evaluating performance and determining the right set of metrics and targets to track.

- **Exit:** within exit, funds struggle to determine the appropriate weighting to allocate to exit decisions and criteria based on impact vs. financial returns targets, fund timeline mandates, and considerations around whether there should be guardrails around which “exit” opportunities to accept to maintain impact considerations of the investment in downstream rounds.

### 2.2.c. Diagnostic on Prime Coalition’s approach to equity

Prime Coalition is a nonprofit organization that encompasses the Prime Impact Fund and Azolla Ventures. The same investment team, now called Azolla Ventures, manages both the Prime Impact Fund (PIF) and Azolla Fund I. The Prime Impact Fund is a USD 50 million, 100% catalytic capital fund formed in 2018. Azolla Ventures is a venture capital firm that invests in early-stage climate technology companies. It raised its first fund in 2021.

This research effort will primarily ground its examination on both funds, which together span over 20 companies currently within the portfolio.

At an **organization level**, Prime Coalition’s mission states that it is a “nonprofit organization that works with philanthropists and other mission-driven organizations and individuals to support sustainable, effective, and scalable solutions to climate change. Every Prime program is designed to catalyze, deepen, or accelerate solutions that we believe will massively reduce greenhouse gas emissions.”

Further, Prime Coalition has a broad range of LPs, mainly tied to foundations, though LP bases vary across the two funds. In particular, Azolla Fund I, which is non-catalytic in nature, represents a different make-up than the catalytic sleeve. Lastly, Prime has incorporated a revised set of promotion and compensation practices that consider DEI and, as such, may have equity components to them. For example, evaluation criteria at Azolla Ventures include an “advancing DEI” metric which assesses progress on expanding the universe of pipeline partners for investment opportunities, sourcing at least 33% of companies that are women or POC-CEOs and at least 33% outside if Boston and San Francisco, and ensuring an intern candidate pool that is diverse among other components.

Moreover, existing compensation structures incorporate both financial returns and impact components to the disbursement of carried interest, with mechanisms in place to ensure impact is prioritized and incentivized. For example, the Azolla fund is set up such that if impact metrics are not achieved but financial targets are, the impact portion of the carried interest is donated to environmental justice organizations. For Prime Impact Fund, that portion is returned to the non-profit’s general operating budget.

At a **pre-deal stage**, Prime Coalition has also made a set of deliberate decisions as it pertains to equity. On deal sourcing and selection, Azolla Fund I has set targets that 33% of CEOs must identify as women or people of color and 33% of

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portfolio companies must be based outside of Boston or the Bay Area. In the investment pipeline, efforts are being made to ensure that these diversity targets can be met. With regards to the diligence process for PIF and Azolla Fund I, investable opportunities are assessed through three key lenses:

- **GHG Impact potential**: defined as the company’s ability to reduce or remove GHG emissions at the gigaton level by 2050 (over 0.5 CO₂e cumulatively by 2050).

- **Commercial success**: understood as the company’s potential for achieving commercial success at scale while enabling GHG impact pathways thanks to an infusion of catalytic capital.

- **Additionality**: conceptualized as the company’s ability, or lack thereof, to raise sufficient capital without the intervention of catalytic capital, which poses a significant barrier to its future impact.

Moreover, while not classified as an investment criterion, Prime Coalition has incorporated a fourth lens to assess the potential for social or environmental benefits and harms in a potential investment. It is explored during the diligence phase and may be further expanded upon if the Investment Committee deems it essential.

Lastly, in the diligence process, Azolla Ventures also assesses the target company’s commitment to DEI with a set of standardized questions. These include:

- What does diversity, equity, and inclusion mean to you?
- What do you foresee as the biggest challenges with DEI in your company? Do you have any initial thoughts on how you would address them?
- Can you describe a time when you recognized someone from an underrepresented group was being discriminated against? How did that impact you personally? With that knowledge/insight how did this instance change your approach toward DEI personally or at your firm?

While these are not directly factored into the diligence recommendation, they are used to assess a target company’s commitment to and progress on DEI. Currently Prime has no existing standardized and established framework or set of metrics used to evaluate a target company’s approach to and potential to drive either equitable or unequitable outcomes through its business activities as it goes to market and scales.

Finally, as it pertains to the post-deal work, the investment team manages the relationship with all portfolio companies in collaboration with the Prime Impact team. For example, Prime Coalition sets the milestones which are used for reporting and for carried interest compensation at the time of exit, and the investment team is responsible for on-going collaboration and monitoring. Prime has no existing governance requirements or guidance with regards to equity and inclusion for portfolio companies. With regards to exits, the events that guide these decisions are acquisitions, IPOs, bankruptcies, or end of fund life events. The timeline for both funds is 15 years and as Prime there are no financial exit targets. The extended
fund life timeline and focus on impact is an area of differentiation for Prime and can provide flexibility to ensure that impact is achieved in addition to financial returns.

2.2.d. Prime Coalition’s portfolio assessment through an equity consideration

Prime focuses its assessment of impact on emissions abatement. Thus, the organization does not track a set of metrics related to equity. For this reason, it is difficult to assess Prime’s performance on this dimension to date. Given this lack of data and the early stage of several of the portfolio companies, it becomes very complex to assess how Prime’s existing portfolio of over 20 companies performs on an equity dimension, specifically with regards to their potential to drive equitable outcomes or maintain and further harm. Exhibit 5 showcases an aspirational categorization of Prime’s portfolio companies against both a climate dimension and an equity dimension.

As indicated in the graph, most companies will be in the “equity neutral” and “not yet deploying technology” categories as Prime’s funds are still in their early stage of capital deployment. However, without incorporating an equity consideration both during the diligence and monitoring and evaluation stages, it will be increasingly challenging for Prime to understand whether its portfolio ends up in the upper-right target quadrant where they are able to be both climate and equity positive or at least equity neutral, or whether there are components of their business model that have the potential to drive harmful outcomes.

As a total portfolio assessment is not feasible given the lack of available data, this next section examines existing investments to identify whether there is a risk of becoming a lower-quadrant company.

At a high level, there are a set of companies within Prime’s existing portfolio that could have the potential for furthering disparate outcomes. For example, companies that function in the carbon capture market could be classified as being “status quo” in their approach to environmental justice and potentially detrimental to communities, as they may allow the sustainment of carbon intensive facilities promoting existing levels of emissions and consumption patterns and may also be located, stored and transported near communities that already suffer disproportionately from pollution and waste, increasing safety hazards and environmental risks to these communities (e.g., a CO₂ transportation pipeline ruptured near a majority black community in Mississippi with severe health impacts).

Similarly, portfolio companies focused on sourcing and supporting the extraction of raw materials like Lithium or Cobalt could also be detrimental to driving disproportionate impacts of climate on marginalized communities, especially with regards to their existing supply chain human rights practices, the treatment of workers and communities in which mining of Lithium operations take place and their own internal manufacturing sites. Governance becomes critical in these cases in order to assess whether these portfolio companies drive improvements or have the potential to introduce or exacerbate harm.


Exhibit 5: Prime’s existing portfolio assessed against climate and equity dimensions.
Ways forward for catalytic capital and Prime Coalition

3.1. Components of intervention

In light of the previous set of analyses, this section explores a set of initiatives across three broad categories. These are initiatives that can be introduced at the company level, initiatives to pursue at the ecosystem level and initiatives to engage at the regulatory level. While this set of initiatives is not exhaustive, it compiles some of the key actions and possibilities currently being explored in the field.

Moreover, each initiative is assessed against Exhibit 2’s spectrum of solutions, providing a set of options to introduce modifications to go from Diversity-focused interventions to Equity+ interventions that can have a higher likelihood of delivering more transformative outcomes (note that not all recommendations have an Equity+ component). This section provides the foundation through which to make a set of four implementable and impactful recommendations for Prime to adopt moving forward.

Possible initiatives at the company level

This section outlines a set of initiatives across the three chains of decisions, mission and strategy, pre-deal and post-deal, in the capital allocation process for funds like Prime Coalition.

Initiatives within Mission & Strategy stage

Initiative 1: Mission. Update Prime’s mission and strategy to incorporate an explicit commitment to both people and planet, expanding the scope to go beyond a GHG emissions abatement focus and incorporate equity considerations and commitments.

- **Diversity-focused:** Update mission to “support sustainable, effective, and scalable solutions to climate change” that “promote diversity, equity and inclusion and consider and mitigate the disproportionate effects of climate change.” To ensure the implementation of this mission, publish a DEI pledge and strategy, track internal hiring and promotion statistics by gender and race and increase targets for internal hiring, retention and promotion (e.g., >33%).

- **Equity+:** undertake a comprehensive revision of the organization’s mission and strategy, examining the mechanisms through which structural power is perpetuated via existing capital deployment decisions. Consider expanding Prime’s mission to be centered around “serving people and communities that endure the disproportionate burdens of climate change and supporting bold, innovative responses to the climate crisis that can create a more inclusive, sustainable and equitable future for all.”
Initiative 2: Board and IC. Increase the diversity and representation of different voices on the board and the investment committee. Prime’s board currently incorporates varied gender representation. However, the board’s racial diversity is low, limiting the range of perspectives and potential for tapping into diverse networks. Prime should consider adding greater racial diversity to its board, given that in the US the burdens of climate change are disproportionately felt by communities of color. Complete a similar review of the investment committee to ensure representation of diverse voices.

- **Diversity-focused**: Commit to a diversity target for Prime’s board that includes gender, racial and socio-economic diversity components to ensure a wide range of perspectives, interests and lived experiences are present on the board.

- **Equity+**: in addition to incorporating targets, re-examine the Investment Committee and Board’s priorities and processes. Incorporate 1-2 environmental justice community organizers on the board and ensure the Investment committee evaluation practices seek to dismantle exclusionary investment practices (e.g., prioritize degrees from prestigious universities, put unnecessary weight on past track records of success, focus on exit opportunities)

Initiatives within the pre-deal stage

Initiative 3: Sourcing. Invest in sourcing to expand relationships with marginalized networks and communities to diversify sourcing channels.

- **Diversity-focused**: Increase existing diversity targets from 33% of women of color to over 50% reflecting the unique positioning of catalytic capital to source and support diverse, underrepresented founders and expand the location of founders to support communities beyond the American northeast and coastal areas.

- **Equity+**: eliminate bias in sourcing processes by having a standardized approach to receiving investing opportunities that removes prioritization given to existing networks (e.g., by only accepting pitches through the Prime Coalition’s webpage). Introduce participatory evaluation of sourcing opportunities through democratic decision-making and distributed power. Consider incorporating Just Transition Investment principles to shift capital to a wider set of potential investable assets that go beyond traditional business segments (e.g., cooperative-owned land and real estate projects, community controlled financial infrastructure, regenerative systems).

Catalytic capital can have a disproportionate impact in allowing diverse fund managers and founders to develop and build a track-record. This is one of their biggest barriers and it impacts who has a license to dream and to fail.

Environmental Justice Fund

Initiative 4: Diligence. Reimagine existing investment criteria to commit more explicitly to assessing and mitigating the potential for harm and to back companies with the potential to drive both GHG emissions abatement and community benefit. Prime should consider standardizing and expanding its current impact metrics to incorporate equity into its impact assessment at

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40 “Reinvest in Our Power” Climate Justice Alliance, accessed April 1, 2023, https://climatejusticealliance.org/workgroup/reinvest
the diligence stage. There are several approaches that Prime could undertake to introduce this effort, ranging from less to more resource intensive. The Appendix lists a comprehensive set of frameworks to consider DEI frameworks for investors.

- Diversity-focused: maintain existing GHG emissions as north star during diligence process and incorporate a lens on equity by considering the company diversity make-up (examine gender and race/ethnicity of founders to meet targets), the jobs (examine jobs created/destroyed through the company’s operations) and the community (examine the potential for benefits and harm in the identified communities in which the company’s operations take place).

- Equity+: Expand impact factors to consider the north star to be on both people and planet. Within the people dimension, consider adopting the GIIN Iris+ framework with a keen focus and commitment to examining who would benefit from or be harmed by the business’ success. Given Prime’s private market focus, early-stage of companies, and internal capabilities, the GIIN IRIS+ framework is the most suitable at this stage, with some adjustments. Further, redefine traditional notions of risk by identifying existing biases in evaluation components.

Initiatives within the Post-deal stage

Initiative 5: Governance. Introduce a governance framework to engage with portfolio companies with a clear focus on assessing and managing equity risks and considerations. Given the early stage of the target companies Prime invests in, and the high level of uncertainty regarding the future business model and go-to-market approach of the companies, Prime should introduce stronger portfolio engagement guidelines and governance requirements to ensure a continued lens is brought forth with considerations toward community benefits or harms as companies scale. This could follow the model of other funds such as Kapor Capital’s Founders’ commitment or Ujima’s Good Business Standards (See appendix for details).

- Diversity-focused: introduce diversity targets for portfolio companies to uphold within their internal business operations (e.g., 33% women and POC hired and supported).

- Equity+: introduce a set of Standards that businesses must follow and commit to in order to receive funding. These may include Environment, Good Jobs, Community engagement and Ownership, and Good Governance. Support portfolio companies so that they can design HR policies and practices that are actively anti-racist, expand worker power and voice, design products and services that center racially equitable outcomes, and design operations and supply chain to center on racial equity.

Initiative 6: Exit. revise exit requirements and priorities guiding investment decisions. Provide flexible, patient and friendly capital that re-examines traditional notions of exit standards and objectives in terms of return profiles (considers both financial and non-financial returns), length of time (introduces flexibility in terms of exit parameters), and ensures community ownership and voice is maintained in downstream capital rounds (introduces legal pathways to ensure shareholders uphold community impact, e.g., register portfolio companies as public benefit corporations to ensure downstream capital must uphold people and planet considerations).


Possible initiatives at the ecosystem level

This section outlines a set of initiatives that Prime Coalition and other catalytic capital players in the climate space could take to further the ecosystem’s commitment to considering people and planet in capital allocation decisions.

Initiative 7: Impact Measurement. Contribute to shaping the impact measurement field focused on equity in the climate investing space and increasing the impact of Project Frame. Participate in community efforts to expand the rigor and comprehensiveness of existing metrics. For example, participate in public consultations such as the ones launched by Impact frontiers and the Distribution initiative. 42 Contribute to demystifying the field to facilitate more players entering the catalytic capital space.

Initiative 8: Campaign. Launch a campaign in coordination with community organizations to elevate the narrative of equity in the climate investing space and center around local communities. Establish new partnerships with community organizations that operate in the same localities as portfolio companies and launch a campaign to highlight areas of opportunity to work together, scale thoughtfully and distribute power as capital is deployed and portfolio companies grow.

The climate discussion remains high level and centered around CO₂ levels. Instead, we need to make the conversation more local, focused on the local impacts of adaptation and on people’s daily lives. Champions need to explain and educate communities on new terms, make investments relatable and centered around the local populations.

Environmental Government Agency

Initiative 9: Outcomes-based financing. Engage policymakers to facilitate the implementation of outcomes-based financing tools and increase the adoption and allocation to catalytic capital funds.

• Diversity-focused: Utilize leadership position via Project Frame to set climate impact disclosure requirements for private markets investing in climate that incorporate GHG emissions and diversity-disclosures as they pertain to gender and race/ethnicity for flounders.

• Equity+: develop expertise in the Community Reinvestment Act (CRA) which are funds deliberately allocated to support low- and moderate-income communities and the Inflation Reduction Act funds allocated to address climate impacts to marginalized communities. Work to expand the pool of catalytic capital and partner with public entities to better drive the additionality of these capital pools toward underserved communities. Advocate for a just climate transition lens in the funding deployment by taking a hyper-localized approach to distributing funds to create local jobs.

Initiative 10: Coalition. Build a coalition with impact players to advocate for allocation of philanthropic capital that is mission aligned. Recognizing the significant portion of funds reserved within endowments, there is an opportunity to advocate for regulation that would require foundations to invest their endowments in line with their stated missions. This could support the field of impact investing and drive an increased number of funds toward Program Related Investment vehicles, supporting the advancement of catalytic capital interventions.

42 “Alfian Firdaus, “Investor Contribution 2.0 - Public Consultation | Impact Frontiers,” February 21, 2023,
Analysis of potential interventions

There are a range of interventions and initiatives that Prime Coalition could pursue. However, given constraints, it is necessary to assess each of these against an established set of criteria to provide a foundation upon which to base the recommendations of this research. As such, we will assess options on how to better embed an equity lens in catalytic capital for Prime against the following criteria:

- **Impact**: measured by the extent to which this intervention aligns with and furthers Prime Coalition’s ability to create an impact toward a more inclusive, sustainable future.

- **Feasibility**: measured by the extent to which this option is feasible, achievable and resource and cost accessible to Prime Coalition.

- **Effectiveness**: measured by the potential for this option to be effective and efficient in its approach to unlock more equitable outcomes aligned with Prime’s vision and strategy.

- **Additionality**: measured by the degree of additionality brought about by this intervention in terms of other alternatives and existing practices already available and adopted by Prime Coalition.

At the **company level**, we compare and assess the different interventions across stages of the deal. Starting with the **mission and strategy stage**, updating the mission and strategy is considered superior to diversifying the board. Initiative 1 better align the entire organization to the desired impact and can be of higher effectiveness in terms of unlocking more equitable outcomes and additionality in impact. Feasibility is deemed lower as it carries associated implementation risks. However, the potential benefits outweigh these risks. Diversifying the board is considered a worthwhile pursuit but less additional in scope relative to updating the mission and strategy.

At the **pre-deal stage**, Initiative 4 is assessed as having the highest impact potential and being highly effective and additional in scope. Re-imagining the diligence process is at the core of where “equity in” components can drive more inclusive outcomes and shift power dynamics and as such it is prioritized over Initiative 3.

Similarly, at the **post-deal stage**, Initiative 5 is prioritized as it can re-establish engagement dynamics with portfolio companies and influence “equity in” components at the core of where portfolio companies make decisions as they scale.

At the **ecosystem level**, Initiative 7 directly addresses one of the most resounding barriers that prevents other players in the space from embedding greater equity considerations across their investment processes, and as such is seen as having high potential for impact, high effectiveness and additionality in the field.
Several challenges remain in the implementation phase and as such it is seen as less feasible, but Prime Coalition’s experience and learning through Project Frame can help support others along the journey. As such, this initiative is judged as being of higher priority than Initiative 8.

At the regulatory level, while both initiatives could deliver significant advancements to the field by removing investment barriers, they are deemed to be less feasible from a Prime Coalition levers of impact perspective and of lower priority in the short term as neither receives a +++ rating.

These relative assessments are summarized in Exhibit 6, whereby Initiatives 1, 4, 5, and 7 receive the highest ratings, and are thus recommended for implementation.

### Exhibit 6: Assessment of initiatives against criteria.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>IMPACT</th>
<th>FEASIBILITY</th>
<th>EFFECTIVENESS</th>
<th>ADDITIONALITY</th>
<th>SUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. UPDATE MISSION AND STRATEGY</td>
<td>+++</td>
<td>++</td>
<td>+++</td>
<td>+++</td>
<td>+++</td>
</tr>
<tr>
<td>2. DIVERSIFY THE BOARD</td>
<td>+</td>
<td>++</td>
<td>++</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>3. INVEST IN SOURCING</td>
<td>++</td>
<td>++</td>
<td>+++</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>4. COMMIT TO EQUITY LENS IN DILIGENCE</td>
<td>+++</td>
<td>++</td>
<td>+++</td>
<td>+++</td>
<td>+++</td>
</tr>
<tr>
<td>5. INTRODUCE GOVERNANCE FRAMEWORK</td>
<td>+++</td>
<td>++</td>
<td>+++</td>
<td>+++</td>
<td>+++</td>
</tr>
<tr>
<td>6. REVISE EXIT REQUIREMENTS</td>
<td>+++</td>
<td>++</td>
<td>++</td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td>7. CONTRIBUTE TO EQUITY MEASUREMENT FIELD</td>
<td>+++</td>
<td>+</td>
<td>+++</td>
<td>+</td>
<td>+++</td>
</tr>
<tr>
<td>8. LAUNCH EQUITY CAMPAIGN</td>
<td>+</td>
<td>+</td>
<td>++</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>9. ENGAGE POLICYMAKERS</td>
<td>+</td>
<td>+</td>
<td>++</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>10. COALITION BUILDING</td>
<td>++</td>
<td>+</td>
<td>++</td>
<td>+</td>
<td>++</td>
</tr>
</tbody>
</table>

Overall, the matrix outlined in Exhibit 6 serves as the basis of the recommendations for Prime Coalition to pursue moving forward given the priorities and principles outlined in the evaluation criteria. However, ideally, Prime Coalition would undertake all the initiatives as they are all deemed as potential interventions that could make a positive contribution to the field.
Recommendations

At a high level, all 10 initiatives proposed could support Prime in better embedding an equity lens in its investment process. As such, ideally, the organization could undertake all of these initiatives. However, given resource constraints and additionality concerns, a more targeted and prioritized approach to implementing a smaller set of initiatives may yield better outcomes for Prime. As a result of these limitations and considerations, this research effort recommends 4 initiatives for Prime to pursue. These are:

At the company level:

**Initiative 1: Mission.** Update Prime’s mission and strategy to incorporate an equity lens in addition to a GHG emissions abatement focus. This renewed focus shifts away from technocratic solutions focused solely on GHG emissions abatement to encapsulate a broader mission that can capture both people and planet priorities. Critical to this renewed mission is a commitment to overseeing the ways in which Prime Coalition can partner with local communities to build collective power and transform existing systems of exclusion that perpetuate climate inequities. Moreover, in pursuing this initiative it is critical to assess the ways in which Prime Coalition can adopt an Equity+ approach. As such, it is recommended that Prime Coalition:

- Undertake a comprehensive revision of the organization’s mission and strategy, examining the mechanisms through which structural power is perpetuated through existing capital deployment decisions.
- Expand Prime’s mission to be centered around “serving people and communities that endure the disproportionate burdens of climate change and supporting bold, innovative responses to the climate crisis that can create a more inclusive, sustainable and equitable future for all”.

Some of the risks associated with this initiative are that updating the mission requires thoughtful review to ensure the new north star is internalized and adopted by the entire organization. This requires careful planning and engagement. However, this can be mitigated by ensuring a participatory process, establishing several points for feedback, and devoting resources to communicating the updated mission and reviewing the ways in which it may update existing internal processes.

**Initiative 4: Diligence.** Commit to incorporating an equity lens in the diligence process by changing investment criteria. Similarly, to be truly transformative and align with the updated mission under Initiative 1, Prime Coalition should incorporate an Equity+ approach, that can:

- Focus the diligence process on building trust and relationships, and re-examining existing power dynamics between investor and investee.
- Develop partnerships with local community organizations in the localities in which Prime
Coalition seeks to invest and involve them alongside the diligence process to capture their voices and perspectives on the opportunity.

- Adopt the GIIN Iris+ framework with a keen focus and commitment to examining who would benefit from or be harmed by the business’ success as a key step if the existing diligence process. This would expand the existing metrics to incorporate the components listed under Exhibit 6, in addition to the existing GHG metrics already assessed in diligence. As the GIIN IRIS+ framework is currently in draft format and under development, we propose adopting it with some adjustments.

Some of the risks associated with this initiative are that it will increase the resources required to complete the diligence process and will incorporate an additional assessment to consider. However, given the potential for harm discussed in this analysis, this is deemed as a worthwhile investment that could otherwise risk Prime’s ability to achieve its renewed mission and get access to a larger pool of funds moving forward. Moreover, to ensure that the incorporation of these metrics drives investment decisions, they should be adopted as red lines that could veto a potential investment opportunity. This would be in line with the same weighting given to GHG emissions and financial sustainability considerations.

### Exhibit 6: Equity-centric metrics for Prime Coalition

<table>
<thead>
<tr>
<th>Category</th>
<th>Metric and Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shifting Power</td>
<td>Value of investments in communities historically marginalized: Increased investment in communities historically marginalized due to race and/or ethnicity, measured by value of investments distributed to communities of people historically marginalized due to race and/or ethnicity</td>
</tr>
<tr>
<td>Justice</td>
<td>Community engagement strategy: assess whether the organization is striving to mitigate the environmental impact of investor and investee operations on communities historically marginalized due to race and/or ethnicity by establishing a plan to mitigate these impacts.</td>
</tr>
<tr>
<td>Risk</td>
<td>Benefits and potential harm from capital deployment: who (people, planet, or both) is helped or potentially harmed through investing in this opportunity.</td>
</tr>
</tbody>
</table>

### Initiative 5: Governance

Introduce a governance framework (see exhibit 7) to engage portfolio companies and manage equity risks and considerations. This step is critical given the early stage of the companies that Prime Coalition invests in.

Some of the risks of adopting these set of standards is that it may limit the flexibility of portfolio companies and diminish the interest of some companies in taking on Prime Coalition capital. However, given the unique set of benefits associated with catalytic capital and the additionality of the capital in filling market gaps, this is deemed a low risk. Moreover, it will serve as a filter for potential investable companies’ commitment to minimizing harm.
### Exhibit 7: Sample Standards for Portfolio companies

<table>
<thead>
<tr>
<th>Standard</th>
<th>Components</th>
</tr>
</thead>
</table>
| ENVIRONMENT                        | **GHG emission reporting**: commit to scope 1, 2, and 3 emissions reporting.  
**Green plan**: develop a plan that incorporates efforts to reduce carbon footprint and have a waste management plan in place. |
| GOOD JOBS                          | **Diversity targets**: set workforce targets to ensure a diverse workforce (e.g., 33% women and POC workforce).  
**Fair wage and benefits package**: commit to paying all workers (Full-time, part-time, contractors) the state minimum wage and include paid family and medical leave.  
**Diverse-backgrounds friendly policy**: drop university degree requirements where possible and adopt criminal friendly hiring practices.  
**Culture**: commit to a culture of transparency and inclusion and verify through worker satisfaction survey. |
| COMMUNITY ENGAGEMENT AND OWNERSHIP | **Commitment to shared ownership**: commit to explore opportunities for employee ownership structures that introduce novel profit-sharing opportunities for workers to build wealth.  
**Community engagement**: commit to engaging with the community in which operations are located by providing transparent communication of business initiatives, developing partnerships with local environmental advocacy organizations and incorporating mechanisms for community feedback. |
| GOOD GOVERNANCE                    | **Public benefit corporation**: explore converting to a public benefit corporation to introduce a legal obligation to consider communities in business operations. |

At the ecosystem level:

**Initiative 7: Impact measurement.** Continue contributing to shaping the impact measurement field leveraging Project Frame and focusing on equity in the climate investing space. Particularly:

- Launch a campaign in coordination with community organizations to elevate the narrative of equity in the climate investing space and center around local communities.
- Establish new partnerships with community organizations that operate in the same localities as portfolio companies and share internal frameworks to highlight areas of opportunity to work together, scale thoughtfully and distribute power as capital is deployed and portfolio companies grow.

Overall, these are the four initiatives we recommend Prime Coalition to pursue moving forward to advance their approach to equity across their levers of impact.
Catalytic capital has a critical role to play in de-risking new technologies to avert a climate disaster while also centering around communities that are at risk of being the most impacted by climate change. This research has highlighted several areas of intervention for Prime Coalition and other players in the space to innovate and re-commit to creating shared prosperity as economies transition. Undoubtedly, there is ample opportunity to leverage the unique advantage and intrinsic characteristics of catalytic capital to be bold and lead the impact field in driving equitable outcomes.

This research also recognizes the implicit tensions that exist within the relationship of catalytic capital and its entrenchment in and usage of capitalistic tools. We have sought to work within these limitations and tensions while reflecting upon the spectrum of interventions through which this form of capital can pursue transformative reform approaches. There are limitations to these tools. Extraction from vulnerable communities, sustainable GHG concentrations in the atmosphere and depletion of the natural environment have all taken place in part due to market mechanisms tied to productive activities that have led to these vast inequalities and today’s climate crisis.

However, there is also reason for hope, as new forms of financing closely linked to grassroots communities that embed democratic, participatory principles could also be a tool for positive change. These capital pools can be transformative in their ability to not only resist injustice, but to also build alternative systems through the channeling of resources. It is in under this framework that both the “equity in” and “equity out” components become particularly important, and where the “how” goes in tandem with the “what”. A keen attention to power and systems becomes crucial, especially as it relates to shifting traditional power dynamics.

Momentum exists at the intersection of community organizing, just transition movements, and impact investing to better align priorities and build bold movements that can “shift economic control to the people, democratize the workplace, advance ecological restoration, drive racial justice and social equity, localize consumption, and retain and restore culture and tradition,” as outlined in the Climate Justice Alliance’s goals. We hope that this review will be helpful to those that aspire to move the needle on advancing equity in catalytic capital being deployed for climate and support Prime Coalition in driving its next decade of impact.

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About Prime Coalition

Prime Coalition is a nonprofit organization that works with philanthropists and other mission-driven organizations and individuals to support sustainable, effective, and scalable solutions to climate change. Every Prime program is designed to catalyze, deepen, or accelerate solutions that can massively reduce greenhouse gas emissions.

Prime centers on collective, long-term thinking in this global movement by supporting people, programs, and innovations that can help spark, deepen, or accelerate emerging climate solutions that have strong potential to transform our world in the decades ahead. In the spirit of additionality, they seek to fill gaps or enable outcomes that are unlikely without our catalytic support. The Prime family, which includes Prime Coalition and its affiliated organizations, aggregates and channels catalytic capital toward deeply impactful climate ventures and projects that they believe have the power to create significant, long-lasting change and that might struggle to raise sufficient support without our catalytic support — such as when the time horizon to retire technology risk is too long for traditional investors.

Catalytic capital enables deep impact that wouldn’t otherwise be possible without it, by absorbing risks that finance-first investors can’t — or won’t — take on. Since 2014, Prime has facilitated investments with over 200 philanthropic entities and mobilized over $200MM for climate innovation.45

Research methodology

This PAE seeks to analyze two main sources of information: available financing data in the US, and personal interviews with experts in the field.

1. Data: the main data sources will come from Pitchbook, the US Climate Finance Tracker46, the OECD’s climate fund inventory database47, Climate Funds update48, among others.

2. Interviews: expert interviews will seek to engage an array of players in the ecosystem to learn about their priorities, incentives, levers of change and bottlenecks and views on catalytic capital solutions. In total, 20 experts participated in the interviews from the private, public and social sectors.

45 https://www.primecoalition.org/mission
46 https://us.climatefinancetracker.com/
48 https://climatefundsupdate.org/data-dashboard/
Frameworks on DEI for investors in the pre-deal stage

Following, this section includes several identified frameworks which could be useful to Prime Coalition and others to consider as they develop internal processes to assess and monitor impact as it pertains to equity considerations.

Summary table of DEI frameworks

<table>
<thead>
<tr>
<th>Framework</th>
<th>Purpose</th>
<th>Organization</th>
<th>Framework(s) [version date]</th>
<th>Metrics</th>
<th>Organization Type</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmark</strong></td>
<td></td>
<td>AYS</td>
<td>Racial Equity Scorecard (2020)</td>
<td>25</td>
<td>Nonprofit</td>
</tr>
<tr>
<td></td>
<td>AYS &amp; WSC</td>
<td></td>
<td>Workplace Equity Scorecard (2020)</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HRC</td>
<td></td>
<td>Corporate Equality Index (2023)</td>
<td>27</td>
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<tr>
<td></td>
<td>WBA</td>
<td></td>
<td>Gender Benchmark (2021)</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* Social Transformation Baseline Assessment (2022)</td>
<td></td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>JUST Capital</td>
<td></td>
<td>Corporate Racial Equity Tracker (2022)</td>
<td>21</td>
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</tr>
<tr>
<td></td>
<td>Equileap</td>
<td></td>
<td>Gender Equality Scorecard (2022)</td>
<td>19</td>
<td>ESG Data Provider</td>
</tr>
<tr>
<td></td>
<td>ILO-GBDN</td>
<td></td>
<td>Model Self-Assessment Tool (2022)</td>
<td>21</td>
<td>Industry Membership Organization</td>
</tr>
<tr>
<td><strong>Disclosure Framework</strong></td>
<td></td>
<td>WGI</td>
<td>** Workforce Disclosure Initiative 2021 Survey (2021)</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EFRAG</td>
<td></td>
<td>** European Sustainability Reporting Standard Exposure Draft (2022)</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SASB</td>
<td></td>
<td>* SASB Standards, Employee Engagement, Diversity &amp; Inclusion (2018)</td>
<td>7</td>
<td>Standards Body</td>
</tr>
<tr>
<td></td>
<td>HCMC</td>
<td></td>
<td>** Four Fundamental Metrics (2020)</td>
<td>1</td>
<td>Industry Membership Organization</td>
</tr>
<tr>
<td><strong>Investment Management Tool</strong></td>
<td></td>
<td>AIMA</td>
<td>AIMA &amp; Albourne DEI Questionnaire (2020)</td>
<td>20</td>
<td>Industry Membership Organization</td>
</tr>
<tr>
<td></td>
<td>GIIN</td>
<td></td>
<td>* IRIS+ Diversity &amp; Inclusion Impact Category (2022)</td>
<td>83</td>
<td></td>
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<tr>
<td></td>
<td>IUPA</td>
<td></td>
<td>ILPA Due Diligence Questionnaire 2.0 (2018)</td>
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<tr>
<td></td>
<td>MSCI</td>
<td></td>
<td>MSCI U.S. Racial and Ethnic Diversity Dataset (2022)</td>
<td>10</td>
<td>ESG Data Provider</td>
</tr>
<tr>
<td></td>
<td>REFINITV</td>
<td></td>
<td>MSCI Workforce Gender Diversity (2019)</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Note: The frameworks marked with an asterisk (*) contain DEI metrics as a part of a broader framework of ESG metrics. Those marked with two asterisks (**) are specifically human capital management frameworks.

---

Selected equity frameworks deemed relevant to Prime Coalition

In addition to the summary table, in the following pages we outline individual frameworks in detail for consideration.

World Benchmarking Alliance’s Framework 50

<table>
<thead>
<tr>
<th>Enablers for social transformation</th>
<th>...demonstrated by meeting expectations...</th>
<th>...that are signposted by Core Social Indicators (CSI):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respect human rights</td>
<td>Commit to respect human rights</td>
<td>CSI 1 Commitment to respect human rights</td>
</tr>
<tr>
<td></td>
<td>CSI 2 Commitment to respect the human rights of workers</td>
<td></td>
</tr>
<tr>
<td>Carry out human rights due diligence</td>
<td>CSI 3 Identifying human rights risks and impacts</td>
<td></td>
</tr>
<tr>
<td>Embed respect for human rights</td>
<td>CSI 4 Assessing human rights risks and impacts</td>
<td></td>
</tr>
<tr>
<td>Provide access to remedy</td>
<td>CSI 5 Integrating and acting on human rights risks and impacts</td>
<td></td>
</tr>
<tr>
<td>Provide and promote decent work</td>
<td>CSI 6 Engaging with affected and potentially affected stakeholders</td>
<td></td>
</tr>
<tr>
<td>Pay a living wage</td>
<td>CSI 7 Grievance mechanisms for workers</td>
<td></td>
</tr>
<tr>
<td>Enable worker empowerment</td>
<td>CSI 8 Grievance mechanisms for external individuals and communities</td>
<td></td>
</tr>
<tr>
<td>Achieve diversity balance across management</td>
<td>CSI 9 Health and safety fundamentals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSI 10 Living wage fundamentals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSI 11 Working hours fundamentals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSI 12 Collective bargaining fundamentals</td>
<td></td>
</tr>
<tr>
<td>Act ethically</td>
<td>CSI 13 Workforce diversity disclosure fundamentals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSI 14 Gender equality and women's empowerment fundamentals</td>
<td></td>
</tr>
<tr>
<td>Protect data privacy</td>
<td>CSI 15 Personal data protection fundamentals</td>
<td></td>
</tr>
<tr>
<td>Pay fair taxes</td>
<td>CSI 16 Responsible tax fundamentals</td>
<td></td>
</tr>
<tr>
<td>Eliminate bribery and corruption</td>
<td>CSI 17 Anti-bribery and anti-corruption fundamentals</td>
<td></td>
</tr>
<tr>
<td>Responsibly lobby and influence policy</td>
<td>CSI 18 Responsible lobbying and political engagement fundamentals</td>
<td></td>
</tr>
</tbody>
</table>
The ILPA Diversity in Action Initiative Framework\textsuperscript{51}

The Framework

Participating organizations agree that their diversity, equity and inclusion activities include a combination of foundational and optional activities as indicated below:

\begin{itemize}
\item Required - All 4 of the Following
  \begin{itemize}
  \item Has in place a DEI statement or strategy, communicated publicly, and/or a DEI policy communicated to employees and investment partners, that addresses recruitment and retention\textsuperscript{*}
  \item Tracks internal hiring and promotion statistics by gender and race/ethnicity\textsuperscript{**}
  \item Has in place organizational goals that result in demonstrable practices to make recruitment and retention more inclusive
  \item Requests (LPs) or provides (GPs) DEI demographic data, such as the \textit{ILPA Metrics Template}, for any new commitments (LPs) or new fundraises (GPs) \textsuperscript{**}
  \end{itemize}
\item Plus, Any 2 or More of the Following
  \begin{itemize}
  \item Tracks gender and race/ethnicity statistics within partner organizations (LPs: managers; GPs: portfolio company boards/management teams) \textsuperscript{**}
  \item Has assigned senior-level DEI accountability, aligned with an investment or senior management role
  \item Provides unconscious bias training for employees on an ongoing basis
  \item Has in place diverse employee resource groups
  \item Incorporates contributions towards advancing DEI into employee performance reviews
  \item Commits to encourage and promote diversity within boards of directors at portfolio companies
  \item Requests (LPs) or provides (GPs) DEI demographic data, such as the \textit{ILPA Metrics Template}, for all funds, i.e., not solely new commitments/new fundraises \textsuperscript{**}
  \item Supports DEI research in the private markets industry by participating in surveys that capture data on diversity in the workforce
  \item On a programmatic basis, supports industry efforts to educate underrepresented groups about careers in private markets
  \end{itemize}
\end{itemize}

As you Saw Racial Justice Framework\textsuperscript{52}

<table>
<thead>
<tr>
<th>Racial Justice Statement</th>
<th>Key Performance Indicator</th>
<th>Scoring Rubric</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Racial Justice Statement</td>
<td>0 or 1</td>
<td>0.38%</td>
</tr>
<tr>
<td>2</td>
<td>Statement post location</td>
<td>0, 3, 5</td>
<td>1.89%</td>
</tr>
<tr>
<td>Corporate Responsibility</td>
<td>CEO responsibility</td>
<td>0 or 5</td>
<td>1.89%</td>
</tr>
<tr>
<td>4</td>
<td>Solicits input from Black employees</td>
<td>0 or 1</td>
<td>0.38%</td>
</tr>
<tr>
<td>Acknowledgement of Key</td>
<td>Names victims of police violence</td>
<td>0 or 1</td>
<td>0.38%</td>
</tr>
<tr>
<td>6</td>
<td>States Black Lives Matter</td>
<td>0 or 1</td>
<td>0.38%</td>
</tr>
<tr>
<td>7</td>
<td>Calls for criminal justice reform</td>
<td>0 or 1</td>
<td>0.38%</td>
</tr>
<tr>
<td>8</td>
<td>Acknowledges systemic racism</td>
<td>0, 3, 5</td>
<td>1.89%</td>
</tr>
<tr>
<td>9</td>
<td>Identifies as antiracist</td>
<td>0 or 5</td>
<td>1.89%</td>
</tr>
<tr>
<td>DEI Data</td>
<td>DEI leader title</td>
<td>0, 1, 2, 3, 4, 5</td>
<td>9.43%</td>
</tr>
<tr>
<td>12</td>
<td>Workforce composition</td>
<td>0 or 1</td>
<td>1.89%</td>
</tr>
<tr>
<td>13</td>
<td>Pay Equity</td>
<td>0, 1, 2</td>
<td>3.77%</td>
</tr>
<tr>
<td>14</td>
<td>Promotion rates</td>
<td>0, 1, 2, 3, 4, 5, 6</td>
<td>11.32%</td>
</tr>
<tr>
<td>15</td>
<td>Recruitment rates</td>
<td>0, 1, 2, 3, 4, 5, 6</td>
<td>11.32%</td>
</tr>
<tr>
<td>16</td>
<td>Retention rates</td>
<td>0, 1, 2, 3, 4, 5, 6</td>
<td>11.32%</td>
</tr>
<tr>
<td>17</td>
<td>Explicit diversity</td>
<td>0 or 1</td>
<td>1.89%</td>
</tr>
<tr>
<td>18</td>
<td>EEO-1 data released</td>
<td>0 or 1</td>
<td>1.89%</td>
</tr>
<tr>
<td>19</td>
<td>Supply chain diversification</td>
<td>0, 3, 5</td>
<td>9.43%</td>
</tr>
<tr>
<td>External Actions</td>
<td>Racial justice donations</td>
<td>0, 1, 2, 3, 4, 5</td>
<td>9.43%</td>
</tr>
<tr>
<td>21</td>
<td>Community engagement with racial justice</td>
<td>0 or 1</td>
<td>1.89%</td>
</tr>
<tr>
<td>22</td>
<td>Hate Speech Accountability</td>
<td>2, 1, 0, -1, -2</td>
<td>3.77%</td>
</tr>
<tr>
<td>23</td>
<td>Third Party Racial Equity/Civil Rights Audit</td>
<td>0, 3, 5</td>
<td>9.43%</td>
</tr>
<tr>
<td>Environmental Justice</td>
<td>Acknowledgement of environmental justice</td>
<td>0 or 1</td>
<td>1.89%</td>
</tr>
<tr>
<td>25</td>
<td>Abides by environmental regulations (since 2015)</td>
<td>0, -1, -2, -3, -4, -5</td>
<td>Total Score -25</td>
</tr>
<tr>
<td>26</td>
<td>Environmental fines and penalties (since 2015)</td>
<td>0, -1, -2, -3, -4, -5, -6</td>
<td>Total Score -30</td>
</tr>
<tr>
<td>27</td>
<td>Adverse effects to BIPOC communities (since 2010)</td>
<td>0, -1, -2, -3, -4, -5</td>
<td>Total Score -25</td>
</tr>
</tbody>
</table>

Social Movement Investing’s Power rating rubric

<table>
<thead>
<tr>
<th>MOVEMENT ALIGNMENT SCORING (MAS)</th>
<th>TOTAL MAS</th>
<th>COMMUNITY OWNERSHIP SCORING (COS)</th>
<th>TOTAL COS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment A Name</strong></td>
<td>Score (0-2)</td>
<td>Community wealth - To what extent is the product structured to build wealth for historically oppressed communities? (see footnote for suggestions about evaluating the level of attractiveness)²⁰⁻⁰ &lt; 20% ≤ 50% &lt; 2 1 2 3 4 5 6 7 8 9 10</td>
<td><strong>TOTAL COS</strong></td>
</tr>
<tr>
<td>Relationships - To what extent does the investor have relationships with the impacted community?</td>
<td>0 = None</td>
<td>0 = most extractive</td>
<td>0 = None</td>
</tr>
<tr>
<td>1 = Somewhat</td>
<td>1 = somewhat extractive</td>
<td>1 = predatory</td>
<td></td>
</tr>
<tr>
<td>2 = Significant</td>
<td>2 = moving towards restorative</td>
<td>2 = below market</td>
<td></td>
</tr>
<tr>
<td>Sharing Power - To what extent does the investor utilize multiple forms of power on behalf of the community?</td>
<td>0 = None</td>
<td>3 = concessionary</td>
<td>3 = &lt;5-20%</td>
</tr>
<tr>
<td>1 = Somewhat</td>
<td>2 = most restorative</td>
<td>4 = non-extractive 0%</td>
<td></td>
</tr>
<tr>
<td>2 = Significant</td>
<td>3 = most restorative</td>
<td><strong>TOTAL COS</strong></td>
<td></td>
</tr>
<tr>
<td>Capital Coordination Ladder - To what extent does the investor share decision making with the impacted community?</td>
<td>0 = None</td>
<td>Total Raise $ - What percent of the total financial need will the investor contribute?</td>
<td>1 = 0-1%</td>
</tr>
<tr>
<td>1 = Informed</td>
<td>2 = &lt;1-5%</td>
<td>2 = &lt;1-5%</td>
<td></td>
</tr>
<tr>
<td>2 = Accountable</td>
<td>3 = &lt;5-20%</td>
<td>3 = &lt;5-20%</td>
<td></td>
</tr>
<tr>
<td>Movement Alignment Calculation</td>
<td>4 = &lt;20%</td>
<td>4 = &lt;20%</td>
<td></td>
</tr>
</tbody>
</table>

### Social Movement Investing’s Power rating rubric continued

<table>
<thead>
<tr>
<th><strong>COMMUNITY ACTION SCORING (CAS)</strong></th>
<th><strong>COMMUNITY GOVERNANCE SCORING (CGS)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Significance</strong> - According to movement leaders, to what extent will this strategy impact the outcome of the community action work or campaign?</td>
<td><strong>Governance Level</strong> - How meaningful is governance engagement by community members?</td>
</tr>
<tr>
<td>0 = none / not relevant</td>
<td>0 = no governance engagement</td>
</tr>
<tr>
<td>1 = small impact</td>
<td>1 = community informed</td>
</tr>
<tr>
<td>2 = modest impact</td>
<td>2 = community accountable</td>
</tr>
<tr>
<td>3 = significant impact</td>
<td>3 = community elected democracy</td>
</tr>
<tr>
<td>4 = essential intervention</td>
<td>4 = direct community democracy</td>
</tr>
<tr>
<td><strong>Scale</strong> - # of People Activated by the strategy</td>
<td><strong>Scale</strong> - # of community members engaged in governance:</td>
</tr>
<tr>
<td>0 = &gt;100</td>
<td>0 = &gt;100</td>
</tr>
<tr>
<td>1 = 100 - 1,000</td>
<td>1 = 100 - 1,000</td>
</tr>
<tr>
<td>2 = 1,001 - 9,999</td>
<td>2 = 1,001 - 9,999</td>
</tr>
<tr>
<td>3 = 10,000 - 24,999</td>
<td>3 = 10,000 - 24,999</td>
</tr>
<tr>
<td>4 = 25,000 or more</td>
<td>4 = 25,000 or more</td>
</tr>
<tr>
<td><strong>Activation Level</strong> - How deep is participant engagement and commitment? To what extent is participation transactional vs. emotional/political?</td>
<td><strong>Long Term Capacity</strong> - Does the strategy create capacity or infrastructure for long term governance?</td>
</tr>
<tr>
<td>0 = no activation</td>
<td>0 = one time engagement</td>
</tr>
<tr>
<td>1 = &gt; 15 min; transactional</td>
<td>1 = invites further engagement</td>
</tr>
<tr>
<td>2 = &gt; 1 hour; mostly transactional</td>
<td>2 = ongoing training &amp; coordination</td>
</tr>
<tr>
<td>3 = &gt; 5 hours; somewhat political</td>
<td>3 = structures for collective governance</td>
</tr>
<tr>
<td>4 = &lt; 5 hours; emotional and political engagement</td>
<td>4 = significant investment in human capacity; governance infrastructure</td>
</tr>
<tr>
<td><strong>Additionality</strong> - How likely is it that the strategy will be supported by others without the SMI investor’s participation?</td>
<td><strong>New Forms of Governance</strong> - To what extent does the strategy support or assert new models of capital governance not seen previously in the capitalist system?</td>
</tr>
<tr>
<td>0 = not timely / irrelevant</td>
<td>0 = not applicable</td>
</tr>
<tr>
<td>1 = existing mainstream adoption</td>
<td>1 = Minor innovations</td>
</tr>
<tr>
<td>2 = strong existing SMI activation</td>
<td>2 = Modest innovation</td>
</tr>
<tr>
<td>3 = new / not many activated</td>
<td>3 = Significant innovation</td>
</tr>
<tr>
<td>4 = very new / perceived high risk reputationally</td>
<td>4 = Highly innovative/inspirational</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>COMMUNITY GOVERNANCE SCORE (CGS)</strong></th>
<th><strong>TOTAL CGS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COMMUNITY ACTION SCORE (CAS)</strong></td>
<td><strong>EXPECTED POWER RATING = MAS * CPS</strong></td>
</tr>
<tr>
<td><strong>TOTAL CAS</strong></td>
<td><strong>COMMUNITY POWER SCORE (CPS) = CAS + CGS + CGS/3</strong></td>
</tr>
</tbody>
</table>
Frameworks on DEI for investors in the post-deal stage

**PolicyLink Investor Blueprint**

PolicyLink classifies their investor blueprint along ten outcomes, three levers of change and five goals, outlined below.

- 10 racial and economic equity outcomes
  
  ![](image)

- 3 levers
  
  ![](image)

- 5 bold goals
  
  - 40% or more of capital decision makers within the firm and among asset managers are people of color, and 50% or more are women.
  
  - 40% or more of portfolio company leadership are people of color and 50% or more are women.
  
  - 40% or more of capital is deployed to businesses owned by people of color and historically underinvested communities.
  
  - Investors are designing and deploying new, inclusive investment structures that open up greater opportunities for growth for smaller funds and smaller businesses.
  
  - More than half of AUM aligns with the standards in the Blueprint, steadily increasing to 100% of AUM over time.

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Kapor Capital’s Founders’ commitment\textsuperscript{55}

Goals – Establish diversity and inclusion goals that are appropriate for your company’s funding stage, employee size, customer base, and core business. Include progress on diversity and inclusion in quarterly investor updates.

Invest – Invest in people ops technology (POT), training programs, and/or resources that assist with mitigating bias in the employment life cycle (e.g., sourcing, hiring, promotion).

Volunteer – Organize volunteer opportunities for your employees to engage with underrepresented communities, especially those that reflect the company’s customer base.

Educate – Participate in diversity and inclusion sessions to learn what works and what doesn’t. These sessions will be hosted by Kapor Capital and will be made available for virtual participation as needed.

Ujima Good Business Standards\textsuperscript{56}

Good Faith Effort

1) Community Benefits Reporting: Complete a yearly Community Benefits Report. The Community Standards Committee (CSC) will use the Community Benefits Report to track progress on all Ujima standards for the annual review and recertification process.

2) Worker Satisfaction Survey: Allow employees to complete a yearly Worker Satisfaction Survey. The worker surveys will be anonymous and reviewed only by the CSC. We have not yet set a minimum satisfaction score to remain in good standing.

3) Ujima Participation: Attend at least 50% of meetings for the Ujima Business Alliance. The number of yearly meetings of the Ujima Business Alliance (UBA) will be decided by the members of the alliance. If the business owner cannot attend, a representative from the business will be present.

4) Community Benefits Pledges: Set yearly goals through a Community Benefits Pledge. Community Benefits Pledges set goals for improvement above Ujima’s minimum certification standards.

\textsuperscript{55} “How We Invest,” Kapor Capital (blog), accessed March 31, 2023, https://www.kaporcapital.com/how-we-invest/.

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Community Ownership

1) People of Color Ownership: People of Color own a majority of the business. For 2 person partnerships, at least 50% is owned by a person of color. For 3 or more owners, a majority is POC owned. For nonprofits, a majority of the board is POC.

2) Commitment to Employee Ownership: Commit to an Employee Ownership Feasibility Study. The business owner(s) will attend a workshop about options for employee ownership/profit sharing, and conduct a study to see if any could meet their financial and ethical goals.

Good Local Jobs

1) Women Workforce: At least 33% of employees identify as women or gender non-conforming. Because some sectors have so few women, even a 33% requirement will be much higher than industry norms. For Ujima’s higher certification levels (TBD by all of us), the CSC hopes to add stronger gender inclusion requirements.

2) POC Workforce: At least 60% of employees are People of Color. Supporting good jobs for working class people of color is a central reason UjimaProject exists.

3) Trans and Gender Nonconforming Workforce: Workplace policies center the safety and success of Queer and Trans Women of Color. Examples of these practices include: anti-oppression trainings; visible posting of rights and resources for queer and transgender people; women; and people of color; targeted outreach in hiring processes.

4) CORI Friendly Policy: Practice CORI (criminal record) friendly hiring practices. For businesses that choose to run a CORI (most do not have to), follow Boston’s Vendors Policy that only allows CORI checks to screen final candidates applying for "sensitive positions".

5) Sanctuary Business: Commit to Sanctuary Business Pledge to protect immigrant workers. A Sanctuary Business Pledge can vary between business sectors, but at minimum includes a commitment not to call ICE on employees, especially when in a labor workplace dispute.

6) Youth of Color Employment: If appropriate and financially able, host at least 1 youth summer job or paid internship. Businesses with workplaces suitable for youth can apply to host a summer job through the City of Boston’s SuccessLink Program.

7) Minimum Wage: 100% of employees are paid the state minimum wage. This would require jobs like servers and farmworkers, who are often paid $8.25 minimum wage, to receive the actual minimum wage and not have to depend on tips.

8) Compensation Ratio: No staff is paid more than 5 times the lowest paid employee. The difference between the highest and lowest paid employee in major US corporations has grown to over 350 to 1. A 5 to 1 ratio allows businesses to have flexibility, but requires the lowest paid workers to receive a raise if the top salaries increase too quickly.

9) Paid Family and Medical Leave: Early adoption of Massachusetts Paid Medical and Family Leave Law. Employers will develop a plan to begin phasing in Paid Medical and Family Leave before it’s required start in 2021 (12 wks family, 20 wks medical). Employers will also encourage employee use of accrued time off and existing leave laws.

10) Fair Scheduling: Implement a Fair Scheduling Policy for hourly wage earners. A Fair Scheduling Policy includes at minimum: 2 weeks notice for work schedule, time off rules between shifts, hours to current employees before new hiring, and the ability to request schedule changes without retaliation.

11) Fair Classification: No nonconsensual misclassification of employees as 1099 contractors. This prevents businesses from classifying workers as contractors to avoid paying taxes and benefits. Sometimes other approaches to compensation may be allowed if agreed upon by the recipient.
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Worker Power

1) Workplace Democracy: Commit to an Employee Governance Feasibility Study. The business owner(s) will attend a workshop about options for employee governance and workplace democracy, and develop a plan for adoption if appropriate for the business.

2) Worker Board Seat: Allow at least 1 elected worker on a corporate board with outside investors. Most small businesses don’t have formal boards. When they do, it’s often for outside investors to have a seat at the table. In these cases, non-managerial employees should also have a board seat to balance investor interests.

3) Collective Bargaining: No union blocking or intimidation. Employers should follow a Card Check Neutrality policy that recognizes the right of workers to organize, and prevents influence or intimidation in a union drive.

4) Open Book Accounting: Commit to an Open Book Accounting Feasibility Study. Open Book Accounting is a business practice where employers show non-sensitive parts of a company’s financial statement to employees to increase transparency and efficiency.

5) Civic Engagement: Promote worker voting and civic engagement. Provide voter registration materials, paid time for voting and/or civic advocacy, referrals to Ujima’s grassroots community partners.

6) Workplace Culture: Update policies and trainings to prevent workplace sexual misconduct. Written policies, regular trainings, women and/or transgender managers of color, and protected employee reporting channels are some ways to help prevent workplace abuse.

Health & Safety

1) Non Toxic Products: Committed to a Non Toxic Workplace Policy. Employers will conduct a review of workplace products and develop a plan to substitute unhealthy products.

2) Occupational Safety and Compliance: No unaddressed OSHA violations or complaints. An OSHA complaint or violation means that there is a complaint about the health or safety of the workplace. Ujima businesses must review and remedy any problems.

3) Health Benefit Information: Provide resources to access health insurance. Businesses with less than 11 employees are exempt from offering health care. These businesses will provide resources and referrals for employees to access existing options.

4) Employee Wellness Plan: Adopt Employee Wellness Plan. Engage employees to identify internal practices, culture shifts, new programs and/or outside resources to address workplace physical, mental and emotional stress.

Customers & Vendors

1) Product or Service Mission: Have a stated community or social goal for the enterprise. Business owners are expected to have a clear vision for how their company could benefit society.

2) Consumer Feedback Channels: Invite formal customer feedback opportunities. Because we’re asking Ujima members to shop from our Certified Good Businesses, it’s important for members to share critical feedback with business owners, rather than shopping somewhere else.

3) Ujima Purchasing Agreement: Adopt an Ujima Purchasing Pledge to purchase from other Ujima businesses. A Purchasing Pledge includes a review of vendors and contractors to identify opportunities to shift to Ujima companies.

4) Supplier Diversity: Where possible, at least 25% of overall vendors are People of Color owned. The 25% applies to discretionary budgets (not rent, utilities etc.) for sectors where there are POC businesses listed or directories.
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Environment

1) Green Energy Plan: Commit to a Green Energy Plan. This would include an annual energy audit and goals for energy efficiency and transitioning to renewable sources.

2) Zero Waste Plan: Commit to a Zero Waste Plan. This would include an annual waste and water audit and goals for recycling, composting, and waste reduction, including staff and consumer education.

Community Power

1) Civic Engagement: Promote community civic engagement. Maintain a physical or online space to educate customers about community issues that are sponsored by Ujima Project.

2) Voter Engagement: Promote customer voter engagement. For retail businesses, make voter registration cards and election information available to customers.

3) Ujima Community Benefits Programs: Give preference for donations to Ujima’s Grassroots Nonprofit Partners. Some businesses have charity and pro-bono programs. Businesses should prioritize outreach to Ujima’s Grassroots Partners for these opportunities.
Bibliography


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Smith, Blair, Bhakti Mirchandani, and Troy Duffie. “THE PATH TO INCLUSIVE CAPITALISM,” n.d.


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